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## THE PRUSSIAN BUSINESS TAX.

THE taxation of business profits is a source of public revenue to which most states have in one form or another resorted, although not always directly or by means of a distinct tax. Of course, business may be taxed under some more general form of taxation, such as a general income or property tax. But many European countries have adopted a business tax, which is distinct in form and administration from the other taxes which with it make up the tax system of the country.

In Prussia the business tax, or *Gewerbsteuer*, has existed in addition to an income and class tax, a land tax, and a tax on buildings. The income tax is general, imposed alike on all forms of income. The other taxes are, in effect, an additional impost on income derived wholly or in part from land and capital. It is assumed that this form of income may with justice be required to contribute more to the public expenditures than the earnings of labor alone, such as wages, salaries, and professional fees.

In 1890-91, before the recent reform of the tax system, the yield of these several taxes was as follows:—

	<i>Marks.</i>	<i>Per cent. of Total Tax.</i>
Land Tax ( <i>Grundsteuer</i> ) . . . . .	40,032,000	24.6
House Tax ( <i>Gebäudesteuer</i> ) . . . . .	32,375,000	19.9
Business Tax ( <i>Gewerbsteuer</i> ) . . . . .	21,119,000	13.0
Class Tax ( <i>Klassensteuer</i> ) . . . . .	24,681,000	15.2
Income Tax ( <i>Einkommensteuer</i> ) . . . . .	44,364,000	27.3
Total . . . . .	162,571,000	100%

The effect of recent legislation has been to make the income tax the principal state tax, and set apart the other taxes in the above list—with the exception of the class tax, which has been absorbed in the income tax—for purposes of local taxation. At the same time a state property tax has been introduced, to which the name *Ergänzungssteuer* (supplementary

tax) is given, because it is intended to supplement the income tax, and carry out the idea of imposing an additional burden on "funded" incomes; that is, incomes derived from land and capital.

These latest changes embodied in the legislation of this year form the second step in the scheme of reform, which will doubtless always be associated with the name of the present minister of Prussian finance, Dr. Miquel. The scheme certainly does credit to his statesmanship and political sagacity. A fuller description of these latest tax reforms may, the writer hopes, be given in some future paper. The income tax in its most recent developments has already been discussed in this *Journal* for January, 1892. On the present occasion it is proposed to give some account of the business tax.

While it is manifest that the business tax has not occupied a prominent place in the Prussian budget, yielding but 13 per cent. of the total revenue derived from direct taxes, yet in its form and administration there are certain unique and interesting features which make it worthy of especial study. Like the income tax, it underwent important changes in the tax reforms of 1891; and although in future it is, as we have said, to be a local tax, in the sense at least that the revenue derived from it goes not to the state, but to *Gemeinde* or some other local organization, yet it is still to be administered by the state; and the provisions of the law of 1891 which regulated the state business tax are still to be enforced, with only such changes as the new purpose to which the tax is to be devoted renders necessary. These changes are few; for the law of 1891 was passed with the expectation that the *Gewerbsteuer* would soon become a local tax, and seems to have been framed with that probable result in view.

The great difficulty in the way of the assessment of a business tax is the ascertainment of the value of the business or the amount of the annual earnings which form the proper basis of taxation. Of course, the owner of the business, even if he cannot state with absolute certainty the amount of his

net profits, is in a position to give as complete and satisfactory information on this point as the case admits; and he might be required to make a declaration of his profits, similar to the declaration which is often required in the assessment of a general income tax. We believe, however, that this method has not been resorted to in any case where the taxation of business profits has been carried out by means of a distinct tax, and not included under some more general form of taxation. The usual objections made to assessment on the basis of declarations — namely, that it is inquisitorial, and equivalent to a tax on conscience — apply with additional force when it is a business tax which is under consideration; for in business affairs a certain degree of secrecy is often essential to success.

These considerations, perhaps, have made legislators more reluctant to require declarations here than elsewhere. But, if that method is not to be employed, the only alternative seems to be either to rely on official estimates, made on the basis of the best information accessible to the tax assessors, or to regulate the tax by means of certain outward signs or criteria of the size of the business, after some method which is explicitly described in the tax law, and leaves little or no scope for the independent judgment of the assessors. The best illustration of this method is found in the French *patent* tax, where, in order to carry out the plan and adapt it to the great diversity in the condition and nature of the industries taxed, an extremely elaborate enumeration of occupations and scheme of *indicia* has been adopted. The signs or criteria taken into consideration are as follows:—

1. The nature of the industry or occupation, the different industries being divided into four main classes, A, B, C, and D, with a further subdivision within these classes.

2. The rental value of the buildings used in the business and, usually, of the owner's dwelling, if it is distinct from his place of business.

3. The population of the place in which the business is carried on, this index being regarded, however, only in classes A and B.

4. For certain kinds of industry the number of workmen

employed, or the amount of machinery made use of, or some similar index of the extent of the business.\*

The *patent* tax was introduced in France almost a century ago, and has undergone a good deal of revision since then, until at the present time it represents, probably, as near an approach to perfection as the method of taxing by outward indications is capable of. But, at best, it is an unsatisfactory way of getting at the tax-paying capacity of a business, although it possesses the advantage of avoiding any searching inquiry into the financial condition of the tax-payer, and of preventing arbitrary action on the part of the tax officials. The latter have only to follow implicitly the rules laid down in the law. The same system has been adopted with more or less modification in many other European countries.

The Prussian business tax, although up to the time of the latest reform it resembled the French in some features, has always placed more reliance on the discretionary judgment of the assessors. Thus in Prussia the law has never attempted to regulate definitely and finally the tax for each individual business. A distinguishing feature of the system has been the assessment by means of a medium or average rate for all business concerns of a given kind located within a given district. This average rate, multiplied by the number of persons or concerns assessed, will of course give the total tax to be collected from that trade or business in that district. The equitable distribution of this total among the individual tax-payers is intrusted to local assessors, acting under certain restrictions which will be noted later.

This method of assessing the tax was introduced in the law of 1820; and that law, which was one of several important tax measures enacted at the same date, was not repealed until 1891. The several amendatory laws which had been passed in the mean time (July 19, 1861, March 20, 1872, and June 5,

\*It would take too much space to describe the way in which the tax is determined by reference to these criteria. See Leroy-Beaulieu, *Sciences des Finances*, i. 393-414; Wagner, *Finanzwissenschaft*, 468. The law, as revised in 1880, may be found in *Bulletin des Lois*. See also Say, *Dictionnaire des Finances*, art. *Patentes*.

1874) did not affect the general character of the tax; and the method of assessing by means of average rates is still perpetuated in the law of 1891. But in most other respects the new law differs from the old, and especially as regards the classification of the industries taxed.

The law of 1820 based this classification in part on the nature of the industry. There were eleven classes, in most of which the method of assessing an average rate was introduced; and this rate was graded with reference to the size of the city or place in which the business or industry was located. With this end in view, all cities and smaller places were divided into four groups: the first group, for which the average tax was the highest, comprised nine principal cities given by name; most other cities with a population of 6,000 or more were included in the list which made up the second group; and, of the remaining smaller places, those with a population of 1,500 or more belonged in the third group, and all others in the fourth.

To illustrate the method, take the tax on the keeping of inns and public houses, which was one of the eleven classes referred to above. Here the average annual rate for the first group, the large cities, was 12 thalers, for the second 8, for the third 6, and for the fourth 4. One hundred innkeepers in a city of the first group, for instance, would have to pay, on the average, a tax of 12 thalers each, or a total tax of 1,200 thalers. The law further prescribed a minimum tax, which, in most cases, was one-half the average, so that, in the above case, for instance, every innkeeper in a city of the first group must pay at least 6 thalers. There was no fixed maximum limit, nor was any needed, for the adoption of a minimum rate in connection with an average rate tends at the same time to prevent the assessment of disproportionately high rates; for, in order to make up the average tax, the assessment of higher rates in some cases must be offset by lower ones in others, and a fixed limit in one direction would therefore act as a restriction on taxation in the other. A further guarantee for the satisfactory distribution of the total tax among the individual taxpayers was given in that provision of the law which required

those engaged in the taxable industry to elect from their own numbers the local assessors.

Such were the main features of the Prussian business tax previous to 1891. The law of that year introduced important changes.\* The old classification of industries has been abandoned, and the population of the place in which the business is located is now no longer taken into account in regulating the tax.

The basis of the new classification is for all kinds of business alike, either the annual earnings or the capital. There are four classes (cf. *Gesetz von Juni 24, 1891*, § 6): the first includes business or industrial undertakings which either yield annual earnings amounting to not less than 50,000 marks or employ a capital (fixed and circulating) of not less than 1,000,000 marks; in the second class may be rated those businesses with annual earnings from 20,000 to 50,000 marks, or with a capital from 150,000 to 1,000,000 marks; in the third, those with earnings from 4,000 to 20,000 marks, or with capital from 30,000 to 150,000 marks; and in the fourth, those with earnings from 1,500 to 4,000 marks, or with capital from 3,000 to 30,000 marks. Any business in which neither the earnings amount to 1,500 marks nor the capital to 3,000 marks is exempt from the tax (*Gesetz*, § 7). It was estimated that this limit would exempt about 300,000 small business undertakings, or more than one-third of the total number of businesses (865,940) assessed under the old law (cf. *Einleitung des Gesetzes*).

This double basis of classification may at first seem somewhat confusing, or even inconsistent with the plain rule of logic that a division must be founded on one principle or basis. But a further study of the law shows how the two bases are to be employed so as to avoid difficulty. Each business is classified on the basis of either its earnings or its capital. When it belongs in one class on the first basis and in another on the

\*The law bears the date of June 24. The German text is given in the *Finanzarchiv* for 1891 (vol. ii.), and has also been published in many other forms, with additional material in the way of comments and explanations. One of the cheaper editions is *Das neue Gewerbesteuer-Gesetz. Ergänzt und erläutert durch die amtlichen Materialien der Gesetzgebung*. Von R. Höinghaus. 1891. Berlin: Ferd. Dümmler's Verlagsbuchhandlung. Price 60 pfennigs.

second, the tax officials have, with certain exceptions which we shall mention presently, practically the option of rating it in either class. Of course, having regard to fiscal considerations only, it would be natural to rate the business in the higher class, where it would yield considerably more to the public revenues than in the lower. Accordingly, the intention is that in general earnings shall be employed as the principal basis of classification; but it is deemed practically advantageous to use capital as a secondary or alternative basis, because there are cases in which it is especially difficult to estimate the earnings,—as when a business is newly established or where it is carried on principally in foreign countries, although having its location or some one factory in Prussia. Furthermore, it is urged that this use of two bases meets with favor in business circles, where occasions for dissatisfaction would often arise if a business were transferred to a lower class or perhaps exempted from the tax altogether, simply because, owing to some special combination of circumstances (*Konjunktur*) or to some single error of management, its earnings had temporarily fallen below the limit of the class in which it had hitherto been rated (*Einleitung des Gesetzes*).

But, whichever basis of classification may be employed, the tax for each class, as we shall see, is graded with reference to the estimated earnings. It is apparently meant to be a tax on profits rather than capital. Therefore, if a business is correctly classified on the earnings basis, the fact that it may belong in a lower class on the basis of capital does not show that the tax on it is disproportionately high. That fact simply means that the business derives, relatively, large earnings from small capital, or, in other words, is unusually profitable, and may be taxed accordingly.\* The law allows no appeal from the classification in such cases as this.

The case is otherwise when the business is correctly classified on the basis of capital, but on the basis of earnings be-

\* It may be noted in passing that the regulating of the tax with reference chiefly to the earnings is somewhat inconsistent with the idea of making it rest on "funded" incomes. Large profits in proportion to capital usually imply superior business management or some other form of labor on the part of the owner.



longs in a lower class. Here the tax may prove to be higher in proportion to the earnings than was intended; and the law has taken such cases into consideration by providing that any business, even when correctly classified on the basis of capital, must be transferred to the next lower class on proof that for two years in succession the earnings have not amounted to 30,000 marks in Class I., 15,000 marks in Class II., or 3,000 in Class III. (*Gesetz*, § 8). These amounts, then, represent the minimum limit of permanent earnings for these three classes respectively. Whatever the capital may be, the business cannot be retained in the class in question unless the earnings come up to this limit. The limit, it will be observed, is considerably below that which is adopted for the classification on the earnings basis. On that basis no business can be classified in Class I., for instance, unless its earnings amount to 50,000 marks. If, however, its capital amounts to 1,000,000 marks, it may be classified on the basis of capital, and retained in Class I. so long as its earnings amount to 30,000 marks. It does not follow, however, that, because under these conditions the business is retained in Class I., it must pay as high a tax as it would if its earnings were sufficient to rate it in that class, or that it must pay a higher tax than it would if, on the basis of earnings, it were transferred to Class II. This will be apparent when we come to consider the scale of rates.

There are no provisions corresponding to the above in case of Class IV., the lowest class. Therefore, no business with a capital of 3,000 marks is exempt from the tax, however small its earnings may be; but under the scale of rates in that class the tax may readily be adjusted to cases in which the earnings are unusually low in proportion to the capital.

In determining what constitutes earnings or capital, the tax officials have to rely mainly on their own personal knowledge and judgment. But a few general principles are laid down in the law. The costs of the business are to be deducted from the gross receipts, and a proper allowance made for depreciation or loss in value (*Werthverminderung*),\* and for the loss

\*This, it seems, includes loss occasioned by wear and tear (*Abnutzung*) of the buildings and equipments and any depreciation in the value of wares or of the outstanding claims of the business, etc.

incurred by discarding machinery or other equipments of the business. But the interest on capital, whether borrowed or not, and on debts cannot be deducted. Neither can expenditures for the improvement or extension of the business, nor for the living expenses of the owner and those dependent on him. Fixed and circulating capital is briefly defined as comprising all the value permanently devoted to the prosecution of the business (*Gesetz*, §§ 22, 23).

The method of assessing the tax by means of a medium or average rate has, as we have said, been retained in the new law: it does not, however, apply to Class I. There its adoption was considered impracticable, owing to the wide differences in the earnings and capital of businesses rated in this class. Therefore, each business is assessed separately and independently. The tax is graded so as to collect approximately 1 per cent. of the earnings. Thus, when the earnings are from 50,000 marks to 54,800 marks, the tax is 524 marks; and it increases 48 marks for every increase of 4,800 marks in the earnings. In this class, then, the tax is simply a graded tax on earnings assessed directly on each business. The assessment districts are the provinces and the city of Berlin; and, of the assessors for each district, two-thirds are chosen by the committee of the province (*Provinzialausschuss*), and one-third are nominated by the Minister of Finance (*Gesetz*, §§ 9, 10).

For the other three classes average rates are prescribed: for Class II., 300 marks; for Class III., 80 marks; and for Class IV., 16 marks. This rate is the average tax to be collected from the tax-payers in any given assessment district. The assessment district for Class II. is the *Regierungsbezirk*; for Classes III. and IV., the *Kreis*. The tax-payers rated in the same class and district constitute a tax association (*Steuer-gesellschaft*), on which the total tax for that class in that district is assessed (*Gesetz*, § 13). This total is, of course, the product obtained by multiplying the number of business undertakings represented in the association by the average rate for the class in which it belongs. If, for instance, in a given district there are 100 businesses rated in Class III., the total tax in that association will

be ( $80 \times 100 =$ ) 8,000 marks. The distribution of this total among the individual tax-payers is intrusted to a tax committee, the *Steuerausschuss*, the members of which are elected by the association from its own numbers. But the chairman is a commissioner of the government appointed to represent the interests of the state (§§ 15, 25). In the election of the committee the suffrage is limited to one vote for each business taxed. The size of the business is, therefore, not taken into consideration; and, where there are several proprietors, only one of them can vote. In this way it is hoped to secure assessors who possess the confidence of the tax-payers, have a practical acquaintance with the local business conditions, and will distribute the tax equitably and satisfactorily. This feature of the law is not new. It was adopted when the business tax was introduced in 1820, and in its workings is said to have given general satisfaction.

In assessing any individual business, the committee is limited to a choice among the optional rates prescribed in the law for each class. In Class III., for instance, there are 18 such rates, ranging from a minimum of 32 marks to a maximum of 192 marks (*Gesetz*, § 14). Moreover, the rate selected in any case may not exceed 1 per cent. of the earnings of the business taxed. This rule, however, does not apply to a business rated on the basis of capital when on the basis of earnings it belongs in a lower class (*Gesetz*, § 15, 2). Acting under these limitations, the committee is to distribute the tax according to their knowledge or estimation of the amount of the earnings.

In this intention to collect about 1 per cent. of the earnings, and in most cases not more, is found the explanation of the scale of rates which is given below. The maximum rate in each class is nearly 1 per cent. of the maximum earnings in the earnings scale of classification; and the minimum rate, although considerably less than 1 per cent. of the minimum earnings in that scale, is but little more than 1 per cent. of the minimum earnings which a business might yield, and still be retained in the class in question on the basis of its capital.\*

\*In Class IV. there is, as we have remarked, no such minimum limit for the earnings. But the low minimum rate, 4 marks, makes it possible to keep the tax below 1 per cent. until the earnings fall below 400 marks.

The consequence is that the rates for the different classes overlap; that is, the minimum rate for each class is less than the maximum rate for the next lower class. This allows a considerate treatment of businesses which are rated in a given class on the basis of capital, but which, as regards earnings, belong in the next lower class. The arrangement is an ingenious one, and has some results which are worth noting.

		<i>Rates.</i>
<b>EARNINGS</b> from 1,500 to 4,000 marks, or <b>CAPITAL</b> from 3,000 to 30,000 marks,	} =IV. . . .	4
		8
		12
		16=average tax for IV.
		20
		24
		28
		32
		36
		40
<b>EARNINGS</b> from 4,000 to 20,000 marks, or <b>CAPITAL</b> from 30,000 to 150,000 marks, and earnings not less than 3,000 marks,	} =III. . . .	48
		56
		64
		72
		80=average tax for III.
		88
		96
		108
		120
		132
<b>EARNINGS</b> from 20,000 to 50,000 marks, or <b>CAPITAL</b> from 150,000 to 1,000,000 marks, and earnings not less than 15,000 marks,	} =II. . . .	144
		156
		168
		180
		192
		228
		264
		300=average tax for II.
		336
		372
<b>EARNINGS</b> not less than 50,000 marks, or <b>CAPITAL</b> not less than 1,000,000 marks, and earnings not less than 30,000 marks,	} =I. . . .	408
		444
		480
		524 on 50,000-54,800 earnings.
		572 on 54,800-59,600 "
		620 on 59,600-64,400 "
		etc. etc.

In the first place, it is obvious that the transfer of any given business from one class to the next lower need not necessarily reduce the tax it has to pay; and conversely, of course, its transfer to a higher class need not raise the tax. For instance, a business with a capital of 150,000 marks, and earnings amounting to 18,000 marks, might either be rated in Class II. on the basis of capital or in Class III. on the basis of earnings, without making any difference in the tax the owner is called upon to pay. For in either class he may be assessed 156, 168, 180, or 192 marks. In that case, it might well be a matter of indifference to him in which class he was rated; but in the yield of the tax to the public treasury it would make a very important difference. For, if the business is retained in Class II., it yields the average rate for that class,—namely, 300 marks,—which has to be raised by the association in which the business is taxed. If, however, it is transferred to Class III., it will only yield 80 marks, the average rate for that class. It is obviously for the interests of the treasury to have this business retained in Class II. Its transfer to Class III. means a loss of 220 marks; and yet the owner of the business may, as we have seen, have no special inducement to protest against his retention in Class II. That is not the case, however, with the association to which he belongs; for it pays over to the public treasury 300 marks on his account, while it receives from him only 180 marks. It would therefore gain 120 marks if this tax-payer were transferred to Class III.; and in that class he will be welcomed, for he adds but 80 marks to the total tax of the association, to which he contributes 180 marks.

The arrangement has this advantage, as it seems to me: It allows the tax-payer who is on the border line between two classes to pursue his own business affairs without giving himself much concern as to which class he is rated in. He can leave that question to be decided by the representatives of the associations interested and the government officials. In making the classification, the friction must come principally at this point. The fiscal interests of the State demand that the business should be classified in the higher class, those of the two associations that it should be classified in the lower. It is not

the State *versus* the individual tax-payer, but the State *versus* a group of tax-payers, or their representatives, no one of whom has any special reason to be more interested in the decision than another. It is the classification which determines definitely the amount which the state is to receive from the tax and the amount which each association—not each individual tax-payer—is to contribute. After the classification is settled, therefore, any further conflict of interests is between the members of the same association, each of whom will of course find it for his advantage to see that he does not pay more than his share of the total tax of the association, or, what is the same thing, to see that other members do not pay less than theirs.

It follows that, so far as the returns from the tax are concerned, it is only necessary to ascertain the earnings or capital of a business within rather wide limits,—namely, the limits which determine the classification,—and the tax-payer may be called upon to state where within these limits his business belongs (*Gesetz*, § 55); but any more definite statements as to his earnings or capital cannot be required of him. He may, however, be required to state in what business or businesses he is engaged, where they are located, the number and kind of workmen employed, the nature and quantity of machinery in use, including the motive power of the works, or to answer any other questions in regard to the outward indications of the extent of his business (*Gesetz*, § 54). The chairman of the tax committee, moreover, has the right to inspect any place of business or manufacture during working hours (§ 25). But the books of the business cannot be examined without the owner's consent (§ 27), and the assessors are bound by oath to keep secret all information obtained in the exercise of their office (§ 49).

It must not, however, be forgotten that in the assessment of the income tax the written declaration is required. These declarations can hardly fail to be of great assistance in the assessment of the business tax. In many cases, the personal income of the tax-payer will be identical with the earnings derived from the business in which he is engaged; and the Introduction to the business tax law calls attention to the

urgent desirability of selecting for chairman of the tax committee the chairman of the income tax assessment commission for the same district, "on account of the substantial identity of the materials used in ascertaining industrial income and business earnings."

It being the intention of the law to collect about 1 per cent. of the earnings, we might perhaps, at first thought, expect that the average rate selected for each class would be about 1 per cent. of the arithmetical mean between the minimum and maximum earnings; but, as a matter of fact, we find it to be considerably less than that, and the difference is greater in Class III. than in Class II., and greater again in Class IV. than in Class III. These lower rates were selected with the expectation that in any class the businesses with smaller earnings will outnumber those with larger, and that the actual average earnings will therefore be considerably less than this arithmetical mean between the minimum and maximum limits. It is assumed, furthermore, that this numerical preponderance of small businesses over large will be greater according as the class is lower. It is presumably expected, then, that the average earnings will not be far from 30,000 marks in Class II., 8,000 marks in Class III., and 1,600 marks in Class IV. Indeed, the successful application of this method of assessment and scale of rates depends in some measure on the approximate correctness of these estimates. In case, however, the average rate proves to be more than 1 per cent. of the average earnings in any association, a reduction of the assessment may legally be demanded (*Gesetz*, § 15, 3); but no provision is made in the law for cases where it proves to be considerably less than that. We might at first think that in such cases there would be no occasion for complaint on the part of the tax-payers. Yet a little consideration shows that the fact that the average rate is considerably below 1 per cent. of the average earnings might prevent the equitable distribution of the total tax of the association by compelling businesses with small earnings to contribute more than their share. We may take again for illustration a tax association in Class III. composed of 100 members. The total assessment will then be ( $100 \times 80 =$ )

8,000 marks. As long as the number of members in the association remains the same, there will be no change in the total tax, whatever changes there may be in the total earnings. If the expectation of the law is fulfilled, the total earnings will not be far from 800,000 marks, so as to make the tax about 1 per cent. Suppose, however, that the proportion of businesses with large earnings is greater than usual, so that the total earnings amount to 1,600,000 marks. Then the tax (8,000 marks) is one-half of 1 per cent. But the lowest rate which can be assessed in Class III. is 32 marks, which is equivalent to a rate higher than one-half of 1 per cent. wherever the earnings are less than 6,400 marks. Yet in this class they may be as low as 4,000 marks, or, if the business is rated on the basis of capital, 3,000 marks. On 4,000 marks a tax of 32 marks is more than three-fourths of 1 per cent., and on 3,000 marks more than 1 per cent. If these small businesses are taxed above the average rate per cent., it follows that some or all the larger ones must be taxed below it. We have here a case of *regressive* taxation. The small earnings are assessed at a higher rate per cent. than the large.

It may be very improbable that the rate per cent. of the total tax would ever prove to be as low as in the case we have supposed. Yet the scale of rates is such that in Classes II. and III. the tax on the minimum earnings which a business may have, if classified on the basis of earnings, cannot be less than three-fourths of 1 per cent., or, if classified on the basis of capital, less than 1 per cent. In other words, the minimum earnings must, in the first case, be taxed above the average rate per cent., as soon as that average falls below three-fourths of 1 per cent., and, in the second case, as soon as it falls below 1 per cent. That it should never in any case fall below 1 per cent. is certainly too much to expect. It may be that the resulting cases of injustice will not be very serious; but, in a study of this ingenious method of assessing the tax, such probable results as these are, it seems to me, worth noting. Some remedy for such cases might easily be found; and, indeed, under the law as it now stands, if the average earnings in any association prove to be unusually high, the classification



could be revised with a view to transferring, if possible, some of the businesses with earnings near the maximum limit to the next higher class. The use of two bases gives, as we have seen, a degree of flexibility to the classification which may often, as in such cases as this, prove convenient.

In conclusion, we can but remark that the enactment of such a law as this furnishes a striking evidence of the high degree of efficiency attained in the Prussian administrative service.

JOSEPH A. HILL.